

REPORT

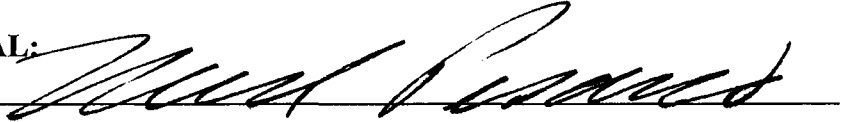
DATE: February 1, 2007

TO: Community, Economic and Human Development Committee

FROM: Joseph Carreras, Program Manager II, Carreras@scag.ca.gov, tel. 213.236.1856

SUBJECT: Request for Reconsideration of RHNA Allocation Methodology Recommendations

EXECUTIVE DIRECTOR'S APPROVAL:



The CEHD Committee must first vote in the majority to reconsider this item.

RECOMMENDED ACTION:

Assuming CEHD Committee takes action to reconsider this item, staff recommends that the 3.5% vacancy rate adjustment be applied only to the increment of growth between 2005 and 2014, as previously approved by CEHD in November 2006.

BACKGROUND:

Hon. Larry McCallon, Councilmember City of Highland, submitted as part of the January 11, 2007 Public Hearing a request by the SANBAG Board of Directors to have SCAG reconsider how the 3.5% vacancy rate policy is applied in the calculation of total future housing need. This motion was approved unanimously by the SANBAG Board of Directors and the report is attached.

The SANBAG Board feels that there is some confusion about how the 3.5% vacancy rate is to be applied. One way is to apply it as approved by both the RHNA subcommittee and the full CEHD Committee is to apply it only to the increment of growth between 2005 and 2014. The alternative method proposed by SANBAG is to apply it to the entire housing stock.

The impact of applying a 3.5% vacancy rate to the entire housing stock in 2014 rather than to the growth increment in construction need between 2005 and 2014 would be an additional net increase in future construction need for the region of approximately 50,000 additional vacant units. Significant adjustments occur across the region with counties having less than a 3.5% optimum vacancy rate receiving more vacant unit need and counties with a higher rate receiving less future construction need.

Each local jurisdiction in every county will also see adjustments in future construction need. Even in counties with a net decrease in total vacancies, some local jurisdictions will see an increase in construction need while others will see a decrease. This is also the case in counties which see a net increase in need. An upward or downward adjustment depends upon whether a locality has less than a 3.5% optimum vacancy rate or a higher rate as compared to the census 2000 effective vacancy rate for the jurisdiction. Again, a jurisdiction with a lower vacancy rate than 3.5% rate will see an increase in vacant unit need while a locality with a higher rate will see a decrease.

The chart below summarizes the adjustment in total future housing need for each county and the region that would result if the SANBAG proposal were used:

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Vacant Unit Estimates for Owners and Renters Using Total Stock Method and Growth Method

County	2000 census effective vacancy rate	Vacant Owner and Renter Units for 2005	Application of 3.5% to Total Housing stock (SANBAG proposal)		Application of 3.5% Growth Increment Method (approved by CEHD)	Net Change
			2014	2005-2014	2005- 2014	2005-2014
Imperial	2.9%	1,332	2,170	839	532	307
Los Angeles	2.5%	81,970	126,985	45,016	10,473	34,543
Orange	1.7%	16,952	37,793	20,841	2,223	18,618
Riverside	4.1%	25,888	28,507	2,619	6,297	-3,678
San Bernardino	4.6%	27,836	25,011	-2,825	4,110	-6,935
Ventura	1.4%	3,817	10,417	6,600	987	5,613
SCAG Region	2.7%	157,795	230,884	73,089	24,622	48,467

Note:

Effective vacancy rates = vacant units for owners and renters / (households + vacant units for owners and renters)

Vacant unit estimates = households/(1-effective vacancy rate) - households

Each jurisdiction's projected household growth between 2005 and 2014 is the basis for calculating future housing construction need. Total construction need equals household growth plus a census defined effective vacancy rate and housing needed to replace units demolished or lost during the planning period. The optimum effective vacancy rate is based on a Low "healthy market" Scenario presented to SCAG by the State Department of Housing and Community Development (HCD). This standard was also adopted by the RHNA Subcommittee and full CEHD Committee.

The term "effective vacancy rate" is based on the census definition of "vacant and available for sale or rent" and does not include "Other" vacant units (e.g. seasonal units, etc.). Jurisdictions with high numbers of vacant units in the Other Vacancy category can adopt local housing element strategies to bring these vacancies into the market to meet future construction needs through substantial rehabilitation and refurbishment. However, "other" vacancies are not used to adjust future housing need because they are not yet on the market.


If the CEHD Committee approves this request by the SANBAG Board of Directors and changes the application of the vacancy rate adjustment, it will alter the RHNA allocation methodology. Consequently, the Regional Council cannot approve a final allocation methodology or approve the Draft Allocation Plan for release on February 1, 2007 as the current schedule calls for. Procedurally, this will delay the RHNA timeline for at least 30 days. The delay would also shorten the amount of time available to SCAG region jurisdictions to prepare their housing elements which are currently due on July 1, 2008.

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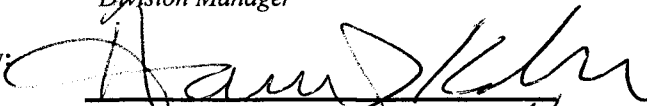
FISCAL IMPACT:

Approval or a change in the RHNA methodology of the magnitude proposed will result in a minimum 30 day delay. The delay will overrun the current RHNA budget allocation by approximately \$65,000 to \$72,000 per month.

Reviewed by:


Division Manager

Reviewed by:


Department Director

Reviewed by:


Chief Financial Officer

Agenda Item 22: RHNA Discussion

Submitted by
Hon. Larry
McCallon, City of
Highland

Summary

Motion: Request reconsideration by SCAG of how the 3.5% vacancy rate policy is applied in the calculation of total future housing need.

Motion approved unanimously.

In addition, the Board directed staff as follows:

"Offer the testimony at the hearing process. Indicate that for all the desire to have the math be comfortable, that we really want livable communities, not just math that is easy. It is important that we do those things that help build the best communities [of which] we are capable with the resources we have."

Complete Transcript

Ty: There has been significant change since this item was drafted. When this item was drafted the key issue seemed to be how to find homes for about 50,000 additional dwelling units throughout San Bernardino County by 2035 with less significant issues appearing in 2014, timeframe for which the Regional Housing Needs Assessment provides each jurisdiction with a housing need target. Since that time, however, there has been some confusion and perhaps missteps, perhaps on our part, perhaps on others. But in any case what has happened is that a 3.5% vacancy rate policy enacted by SCAG has encountered some ambiguity as to how it gets applied. One way to apply it and the way that apparently the SCAG Committees approved its application would be to apply 3.5% vacancy only to the increment of growth between now and 2014. The alternative would be to apply it to the entire housing stock. We in San Bernardino County have a vacancy rate currently with our entire housing stock that is substantially above 3.5%. Using 3.5% vacancy as applied to the entire housing stock means that substantial numbers of existing vacant units can count towards the housing need allocation in the regional housing needs assessment. Application with 3.5% vacancy rate adjustment only to the growth increment means that even in cases of cities that currently have double digit vacancy rates and literally thousands of units standing vacant, none of that counts. And they nevertheless get allocated substantially more housing needs commensurate with their household growth. We workshopped this issue with our local jurisdiction staff on Monday based on an understanding that emerged from SCAG meetings the previous Thursday, almost a week ago, that the 3.5% vacancy rate should be applied to the entire housing stock. Our local jurisdiction staff were quite comfortable with the numbers. There were a few minor glitches that would require revision but nothing significant. We have been advised by SCAG staff who are in attendance today, including Hasan Ikhrata who is Director of Planning and Policy for SCAG, that this represented a misinterpretation, in fact the SCAG policy committee that enacted this vacancy rate adjustment took action only to support the vacancy rate adjustment as it applies to the growth increment. The difference within San Bernardino County would be then a need to allocate about 6,000 more dwelling units to the jurisdictions of San Bernardino County by 2014. Really the more significant issue is how it applies to jurisdictions that have very high vacancy rates already. The City of San Bernardino, for example, in the 2000 census had a vacancy rate over 11% which means that more than 5,000 units citywide were standing vacant. By the current interpretation of the action taken by the policy committees at SCAG, none of those units count toward meeting the city of San Bernardino's housing needs. If the vacancy rate adjustment were applied differently, then San Bernardino could count those vacant units as credits toward meeting its housing need requirements.

Christman: Ty could you said that again because it didn't make sense.

McCallon: Mr. Chair, before he answers that, I would like to say that I was on the sub-committee that came up with the recommendation and I'm also on the policy committee that approved the recommendation at SCAG.

Ty interpretation of what we approved was on the total; however, SCAG staff tells me that the minutes reflect that it is on the increment. That is not my understanding of the way we voted and the way that we understood the increment was to be applied. I believed everyone agrees that the right thing to do is to apply it to the total. However there is pressure to meet a deadline to get this thing done and some money concerns. I will continue to push at the SCAG level to do it right even if we have to not meet the deadline, but there is going to be enormous pressure to not do it right just to meet the deadline.

Rothschild: That comment is very relevant because most of us know that a lot of people live in one community and work in another. The total ought to be the number. It is a big number. It is an important policy decision.

Ty: Mr. Christman, let me see if I can explain. The City of San Bernardino, based on census records, has a vacancy rate in the neighborhood of 11%. That means that they have a housing stock that includes more than 5,000 units that are currently unoccupied. The RHNA will be based on a growth forecast that shows a growth in households (occupied housing units) within the City of San Bernardino between now and 2014 that is in the neighborhood of 6,000. If one applies the 3.5% vacancy rate requirement to the entire housing stock, that basically says that the currently unoccupied units, the 5,000 plus, can contribute to the city's meeting its requirement to provide housing units for the 6,000 additional households. If the 3.5 % vacancy rate requirement is applied only to the growth increment then it is basically saying that the city has to plan to provide enough housing units not only for the 6,000 additional households but also for 3.5% beyond that to maintain a 3.5% additional vacancy rate. This disparity is in terms of this one city, and not all cities are likely to experience this. In fact it will work the other way in Orange County. Orange County has extremely low vacancy rates and maintenance of a 3.5% vacancy rate for their entire housing stock would impose a requirement to provide more units on many [Orange] County jurisdictions.

Morris: It is a dilemma of most of our older cities. This is a housing stock that has aged. Those are our challenges that we face as a city is to rehab and fill those aging structures. But to require additional building when we have such a vast stock of unused but available housing is just nonsense.

Ty: This is the status in which we find ourselves. Each of your local governments has in its hands now a set of numbers that reflects application of a 3.5% vacancy rate adjustment to the entire housing stock as we thought made technical sense, and which I'm hearing you believe makes sense as well. However, that is not consistent with the set of numbers that SCAG has produced and is moving forward with. Next steps include a public hearing tomorrow. That is why [this issue] is very time sensitive. SCAG is trying very hard to complete a two year process within a year; in fact we are in the last six months in terms of the deadline for completion of the regional housing needs assessment (which is June 30, 2007). That concludes my report.

Morris: I would like very much to hear, since we have a SCAG representative here, what the rationale is for this type of calculation. It makes no sense to me but perhaps there is a bureaucratic explanation for this.

Hasan: I don't disagree with any of you in terms of applying the 3.5 % to the total. This is an equity issue between counties. Those counties that have a very low vacancy rate should do more. Those counties that have a high vacancy rate should do less. The 3.5% is a new thing; it wasn't even in existence. We would have applied a lower vacancy rate if the subcommittee didn't say [could not be heard]. One of the reasons that the staff recommended to the sub-committee, and I understand there is confusion what the sub-committee approved of 3.5%. The total regional need went down by 60,000. Instead give us a regional number. That number by applying a 3.5% to the increment went down 60,000. If we apply it to the total, our total regional need would have been 60,000 thousand more. So that is one logic, now the question is does that get the equity issue between the counties sorted out. The answer is no. If I knew this, if I was smart enough to know this or, and Ty is smart enough but we didn't know this two months ago. I would have gone to the sub-committee and said it makes sense to [add] to the Total even if the region as a whole would have to do more.

Morris: My question, Mr. Chair, of the SCAG Staff is we have our representative who believes he voted for a particular strategy based upon the common sense of what we are hearing now. And staff gives it a different twist and you are going to forge ahead with a different idea because staff did not agree with the way the committee acted. Couldn't they clarify that, go back to the committee and figure out what they intended.

Hasan: One of the things I will have to say, staff did not intentionally forge anything. [We] did not go back and say let us fool the sub-committee to a different [action]. Again the logic was to reduce the total regional number by 60,000. Going back, the problem with going back [is] we are implementing a state law. The state law clearly says we have to do these following steps which we have done. We have done fourteen workshops, done thepublic hearings, we are doing a second tomorrow. If we were to go back to the sub-committee, and I'm sure the sub-committee would approve it, we would have to start the process again with no money and we would miss the deadline. That is the reason why it is not just as simple as going back and changing a policy. It is easy to change and it should be changed and it should be changed for the future. But, right now where we are in the process does not allow us. We would need more money and more time which we don't have.

Hansberger: What is the effect of missing the deadline?

Hasan: All cities in our region that would need their housing elements to be approved would not be able to have it approved unless you have an approved Regional Housing Needs Assessment. So the risk for about 130 cities is huge. Therefore we want to meet the deadline.

Morris: What is the cost to SCAG of going out and redoing the public process?

Hasan: About \$500,000 to \$1 million, which is a general fund [expenditure]. Federal Planning funds cannot be used for this. It is the membership fees.

Hansberger: But if this is not the conclusion which is agreed upon, how sensible is it to meet a budget and a deadline with an answer that is inappropriate?

Hasan: Say that again.

Hansberger: If this is not the conclusion that has been agreed upon, how sensible is it then to force ourselves to a solution or conclusion which meets a deadline and budget but gives us the wrong answer?

Hasan: I will just put in front of you that understanding that some cities will be impacted more than San Bernardino. The total impact for the county of San Bernardino is eight year period is about 8,000 housing units. I don't think it is significant from a county standpoint. I do think it is significant for some cities that have high vacancy rate. Any city can appeal. I can tell you based on the decision of the policy committee, that appeal will be deny because it is not consistent.

Morris: This whole thing is so illogical. We drive ahead with a recommendation that we know is not right and was not the recommendation of the sub-committee that authored it, but because of some artificial timeline we figure we got to do this and so we forge ahead. That makes no sense at all.

Hasan: This RHNA makes no sense at all and SCAG is not the only who is doing it. It is the state law.

Morris: We have an obligation to our public to make sense of it. As policy makers that is our obligation, is to drive ahead with good policy.

Hansberger: Mr. McCallon, do we have any reasonable opportunity to go back to the committee with these? How do we address this further? You were there, you participated, I did not. I'm not sure you have the answer

at this moment. Every time we go through this it seems it is a process that is manipulated both bureaucratically and politically to try to come up with answer that make no [sense] in the market place.

McCallon: First of all I would like to say that Husan is an honorable man and one of the better staff at SCAG and I appreciate the work that he is doing. He is following direction, obviously. The problem is that the sub-committee had representatives from each county. We had six representatives, one from each county and one alternate. I was the alternative and Tim Jasper was the regular. That sub-committee made recommendations which went to the policy committee which is a broader cross-section which includes Kelly and Deborah Robertson from Rialto. They then foreworded it to the Regional Council and the Regional Council rubber stamped what the committee did. We would have to have the sub-committee and the policy committee say we made a mistake or there is a wrong interpretation and get it turned around. I don't know if there is a political will to do that or not. I would certainly try to do something

Hansberger: Ty, if you could speak to that, what would be the affect of such an action?

Ty: I think an action of that kind - a request from SANBAG to SCAG for reconsideration - would be significant on your part. I can't imagine that SCAG would casually ignored such a request. That doesn't mean that it guarantees any particular outcome in our favor but should you wish to do it, I think that would be appropriate.

Morris: MOVED

McCallon: SECOND

Basle: I have one question. Was the sub-committee meeting recorded?

McCallon: Hasan said the recording shows that it was on the increment.

Basle: I think part of the request should be that we have someone, Mr. McCallon or Ty actually listen to the recording also, first of all to determine whether that was the case or not and then perhaps move on with the reconsideration. But I think we would like to at least hear that for ourselves to see whether that was the motion that was adopted there.

McCallon: I don't think staff is trying to change the committee's decision. I think they honestly believe that the record shows that the increment is what was voted on. But that is not what the sub-committee recommended.

Ty: I personally have no doubt that if Hasan tells me that, that is what the recording shows that it in fact does. I have work with Hasan a long time and he is entirely honorable.

Gilbreath: If they are having a public hearing tomorrow how much affect would it have if a representation from this board actually went and provided input to that public hearing process, or do you feel it is just not appropriate at this time; that we need to go back to committee.

Ty: I believe there would be considerable value to making statements on record to the effect that SANBAG questions the viability of this particular policy. Also I am advised that those of your staff representatives who wish to participate in that but do not wish to go all the way to Los Angeles to do so have video conferencing opportunity at SCAG's Riverside office.

Hansberger: Is that sufficient for direction at this point.

Morris: I think there is a motion and a second for reconsideration. What affect that will have I don't know at this moment in time, but I think the board should go on record protesting this kind of decision making process.

listening to the voice of Larry McCallon, that is not what was intended, and if that is not what was intended to try drive forward with a set of recommendations that is simply bad policy.

Hansberger: One of the concerns that I have, if you assume even a 3.5 % vacancy rate generally. And you try to hold that fast across the region what you are really saying then is the less expensive areas are constantly going to be under pressure to provide lower cost housing to meet the needs of the more expensive areas in which the price has risen to the point that it is just literally forcing people to move away from those areas where the jobs are and to have to commute. It just seems to me to be an insane policy. We either have to have a policy that moves the jobs or we have to keep the people near the jobs. It just seems to be a policy that works in every way against decent and sensible land use planning.

Hasan: Gentlemen, you are right on the money. The sub-committee did address that in a policy to move those high cost areas to provide more affordable housing. It is an equity issue.

Hansberger: I think we need to offer the testimony at the hearing process. I think we simply have to indicate that for all the desire to have the math be comfortable, that we really want livable communities, not just math that is easy. It is important that we do those things that help build the best communities [of which] we are capable with the resources we have. I think we have adequate direction. There is motion and a second.

Vacancy Rate Application

There have been several lengthy discussions regarding the application of the RHNA vacancy rate and whether it should be applied to the entire housing stock or to forecasted growth. Actions taken by the RHNA Subcommittee, however, indicate that SCAG's policy is intended to apply the effective vacancy rate to forecasted household growth:

- September 28: The Committee was asked to vote on a policy adjustment option for a housing cost factor and a market demand factor. After lengthy discussion, the Committee voted that they would take action on housing cost but would decide at the next meeting what policies to consider. As for the market demand factor, the Committee vote to consider no further adjustments to the Census 2000 vacancy adjustment in the Integrated Growth Forecast. Because the Integrated Growth Forecast applies vacancy rates to future growth, the Committee voted to continue application of an optimum vacancy rate (3.5%) to forecasted projections rather than to existing conditions.
- October 12: The Committee deliberated policy to address the RHNA housing cost factor and was presented a few options for consideration. One option proposed using a vacancy rate to adjust future vacant need while another option applied a fair share adjustment. The recommendation of the Committee was to combine both of those options, which would be brought back for further deliberation after TAC discussion.

Regarding the issue of housing demand, a member of the Subcommittee asked previously to reconsider the action taken the preceding week regarding the approval of a policy action for market demand. However, the same member at this meeting withdrew his request for reconsideration. Chair Edney clarified that the vacancy issue discussed for housing cost was about a future vacancy factor. He also clarified last week's discussion about applying the vacancy factor to existing conditions was not approved as part of the methodology. The motion to withdraw reconsideration of the previous week's decision to apply a 3.5% optimum vacancy rate to future growth action was unanimously approved by the Subcommittee.

- October 16: The P&P TAC held a special meeting to discuss RHNA vacancy needs and fair share issues. SCAG Staff reminded the Committee several times that the RHNA Subcommittee had agreed to exclude an existing housing stock vacancy adjustment in the needs assessment methodology. The TAC came to a consensus to use one single ideal vacancy rate adjustment for all local jurisdictions with exceptions for identified anomalies.
- October 19: The Committee was asked to review and approve a summary report of policy factors discussed and recommended by the Committee. Staff reminded the Committee of requested TAC guidance, which recommended using a 3.5% vacancy rate for all jurisdictions and broken down by renter and owner status. The Committee unanimously approved the RHNA recommendations for transmittal to the CEHD.

The submittal of the RHNA Subcommittee's policy recommendations was subsequently approved at the November 2 CEHD Committee meeting.

* excerpted from the RHNA Subcommittee minutes
for the September 28, 2006 meeting

Mr. Carreras informed the panel that the RHNA Subcommittee is contemplating three options to determine how to consider the risk of loss of low-income units, with SCAG recommending option #3.

- 1) Provide an Assessment of Unit Conversion as an Aid for Communities to Develop Their Own Housing Strategy.
- 2) Allow Local Jurisdictions to Address the Risk of Conversion in Their Local Housing Elements.
- 3) Adopt a Policy that Combines and Existing Housing Need Statement with the Discretion of Local Jurisdictions.

Mr. Carreras said SCAG would facilitate formatted data that could be useful for sub-regions and communities to use as they meet their state housing planning requirements.

Ms. Lynn Harris reminded the members present that the policy choices and decisions that are made by this committee are formats that SCAG uses to turn in the allocation plan to the State, who also monitors the procedures the local jurisdictions have implemented in handling these issues.

Mr. Carreras went on to say that the loss of low-income housing within the SCAG region affects the housing affordability of the community and the region as a whole. For this reason, it is extremely important for the Subcommittee to determine how to avoid the loss of such units by issuing a collective existing housing need statement or by allowing local jurisdictions to assess their needs individually.

Hon. Edney inquired if the report has contemplated to include a category within the risk assessment area, expiring after the RHNA cycle ends in the year 2014. Mr. Carreras informed Hon. Edney that a category has been included in that area for anything expiring after the year 2015.

A MOTION was made to adopt Option #3 as a policy. The MOTION was SECONDED and UNANIMOUSLY APPROVED.

6.13 Deliberation of Housing Cost and Market Demand for Housing Factors

State Law (Govt. Code §65584.04 (d))

ACTION 1: Approve a policy for the housing cost factor.

Mr. Carreras presented several options for the committee to select that would enhance the allocation process by taking into

account a policy adjustment regarding housing costs. A key element in the allocation process is the market demand for housing, measured if an adequate housing stock is available. The proposal is to consider addressing the AB 2158 factor further, establishing an ideal vacancy level, adjusting the vacancy housing stock, and providing a housing credit to communities that have been supplying sufficient housing.

The options regarding a policy for the housing cost factor are:

- [
- 1) An Adjustment to Assign More Housing to High Housing Cost Jurisdictions Relative to Lower Cost Jurisdictions Based on the Integrated Growth Forecast.
 - 2) Consider no Further Adjustments Based on the Fact that the AB 2158 Considerations are Already Included in the Growth Forecast.

Mr. Hasan Ikhata, SCAG, stated that neither zoning nor growth ordinances will change the allocation process. Mr. Ikhata said that if the committee feels they need more public policy debate and recommendations on these very important issues, they should not hesitate to discuss it with SCAG.

Mr. Ty Schuiling, SANBAG, is concerned that there should be no mistake in assuming that the baseline forecast should consider these factors. The local and sub-regional input and the technical work have not been in the direction of trying to impose any better job-housing balances on the region. He considers that this AB 2158 factor has not been explicitly considered in preparation of the forecast numbers.

Mr. Frank Wen, SCAG, explained how the current growth forecast was developed considering the AB 2158 factors. Mr. Wen described that it requires the observation of trends, employment growth, and some local technical input, which already reflect some adjustments. These numbers and trends are then carried into the future to give us an average growth forecast of the SCAG region.

Mr. Rick Bishop, WRCOG, complemented SCAG on a well-rounded and informative workshop earlier in the day. He recommended the committee to consider Option #1 and pointed out that the methodology of allocation should not be census based, arguing that if looking to create a better RHNA distribution, it should be based on the locations where people work.

Ms. Joanna Africa, SCAG, noted that one of the goals or objectives that the State has codified in RHNA is to: "Promote and improve inter-regional relationships between jobs and housing". This seems to imply that all the Council of Governments do more than maintain the status quo.

[A MOTION was made to adopt Option #1 as a policy. The MOTION was SECONDED and APPROVED by a vote of 4-2, with Los Angeles and Orange Counties voting against the motion.

ACTION 2: Approve a policy for the market demand factor.

Mr. Carreras stated a policy adjustment option for the market demand factor that includes but is not limited to:

- [
- 1) Establish an "Ideal" Effective Vacancy Level for Owners and Renters as a Major Growth Factor Beyond the Latest Census Vacancy Rate.
 - 2) Consider No Further Adjustments to the Employment to Population Relationship and Census 2000 Vacancy Adjustment in the Integrated Growth Forecast.

Mr. Carreras cited the following statistics for average vacancy levels per county: Imperial County 2.9%, Los Angeles County 2.5%, Orange County 1.7%, Riverside County 4.1%, San Bernardino County 4.6% and Ventura County 1.4%. The "ideal" regional vacancy level for homeownership is 2% and for renters is 6%.

Mr. Bill Tremble, City of Pasadena, believes the "ideal" vacancy rates give the wrong impression to the jurisdictions that performed well during the last census. These communities will be unfairly penalized for their housing production, and therefore increase their vacancy rates. Mr. Tremble recommends the committee adopt Option #2.

Mr. Ty Schuiling, SANBAG, indicated his support for Option #1.

[A MOTION was made to adopt Option #2 as a policy. The MOTION was SECONDED and APPROVED by a vote of 5-1, with San Bernardino County voting against the motion.

REPORT

DATE: October 12, 2006

TO: CEHD RHNA Subcommittee

FROM: Joseph Carreras, Program Manager II, 213-236-1856, Carreras@scag.ca.gov

SUBJECT: Guidance on application of a Housing Cost factor to the RHNA

RECOMMENDED ACTION:

Staff recommends policy option #4 which combines a housing stock adjustment with a Fair Share policy adjustment.

SUMMARY:

At its last meeting, the CEHD subcommittee on RHNA policy issues approved inclusion of a policy factor on housing cost into the RHNA. This item requests guidance on how to apply this policy direction.

There are several housing demand and supply dynamics which contribute to the bidding up of home prices and rents, which in turn results in households paying a disproportionately high level of income on housing costs (30% or more), overcrowding, and low vacancy rates and mobility choices. Policy options to address resulting high housing costs include supply side adjustments and affordable demand side adjustments. Such approaches attempt to increase housing stock in high cost areas and/or increasing affordable housing diversity goals in high housing cost jurisdictions. Options include but are not limited to:

Housing stock approaches that adjust future construction need

1. Add 10% more housing or some other specified percentage - to local jurisdictions with home prices and rents exceeding the subregional average and provide a 10% credit to communities with homes that cost less than the average. This would put relatively more homes where costs are high and less homes where costs are relatively low in a submarket, although there may still be an affordable housing mismatch between incomes and home costs between the subregion and other subregions
2. Assign more housing to high housing cost jurisdictions relative to lower cost jurisdictions based on effective vacancy rate differentials. For example, use the weighted effective regional vacancy rate of 2.7% across all jurisdictions to adjust the future vacant unit need. This will modestly increase housing stock in low vacancy, high housing cost communities versus other jurisdictions. Using a weighted ideal rate of 3% or 3.5%, etc. will result in a higher adjustment. Please see the attached vacancy rates for all jurisdictions and the correlation analysis between housing price/affordability and vacancy rates.

A Housing diversity goal approach setting a Fair Share policy for local affordable housing goals. Approval of this option would obviate the need for a separate Fair Share option discussion.

3. Set affordable housing diversity goals by applying a fair share adjustment based on the local median income instead of the county median income. For instance, a high housing cost, high income community with a \$100,000 median income may have a very low income percentage goal of 20% based on its local median income. When the county median income of say \$50,000 is used to set the income categories, the very low income affordable housing

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percentage goal would be 15%. This approach increases fair share diversity goals in high income, high housing cost jurisdictions. Conversely, a low income community may have a 25% very low income percentage target for affordable housing based on its modest, local median income but when the higher county median income is applied, the income category for very low income households increases to 33%. This approach helps avoid the further concentration of very low income households in jurisdictions where they are now concentrated by defining income categories based on local rather county median income levels.

Combine a housing stock adjustment with a Fair Share policy adjustment.

4. Combine options #2 and #3 by making both an adjustment from both a housing supply and a housing demand perspective to address housing affordability and availability goals.

BACKGROUND:

AB 2158 (Lowenthal) reformed the existing housing needs process in 2004. The state housing law now requires that a fair share distribution of regional housing need between or within counties shall consider specific factors in its housing need methodology and allocation plan. The factors are listed in the statute and require each COG to include in its development of a distribution methodology each member jurisdiction's existing jobs-housing balance, opportunities and constraints to housing development facing member jurisdictions (including lack of water or sewer capacity, land availability, land protected from urban development under state and federal programs, and county policies to protect farmland), the distribution of household growth assumed for purposes of regional transportation plans, market demand for housing, agreements between counties and cities to direct growth, loss of units in assisted housing developments, high housing costs burdens, and farm worker housing needs, and to explain in writing how each of these factors was incorporated into the methodology. The housing statute also prohibits any ordinance, policy, voter-approved measure that directly or indirectly limits residential building permits from serving as a justification for a reduction in the jurisdiction's allocation.

** excerpted from the RHNA subcommittee minutes
for the October 12, 2006 meeting*

each county within the region to have a fair and accurate access to the process. The subcommittee would then take the combined consensus methodology back to the CEHD. The CEHD will then have the opportunity to review every item of the methodology and take whatever action it so chooses. The approved action items will then go to the Regional Council.

Chair Edney stated that what took place at the last CEHD meeting on October 5 was not the process previously identified. In order for the RHNA Subcommittee to have a fair and accurate process, as identified by the CEHD, each county within the SCAG Region has been given a seat on the RHNA subcommittee. After speaking with Chair Bowlen of the CEHD, he and I agreed that this would be the process the CEHD and RHNA Subcommittee would follow.

Councilmember White, representing Riverside County, stated that he was the maker of the motion to bring the item back to the subcommittee because he felt the importance of the item warranted such action at the time. Chair Edney reiterated the need to follow the agreed upon process to ensure fairness for all counties. The subcommittee concurred.

6.0 ACTION ITEMS

6.1.1. Guidance of Application for Housing Cost Factor to RHNA

Lynn Harris, SCAG, came forward to offer a recommended staff Amendment to Item 6.1. On page 54, under Recommended Action, it should read that staff is asking the subcommittee to provide guidance in the development of the methodology that applies to the housing cost policy. In Option #3 (pg. 54) talks about a series of tables that show city level median income. This was an effort on part of staff to see if we could work an allocation process from the city level up to the county. Staff's latest evaluation notes this may not be an acceptable approach given current state law.

Joanna Africa, SCAG Legal Council, stated that the attached tables appeared to be based on local medium income instead of county and noted that there may be legal concerns if this is intended as a substitution rather than a comparison. However, Ms. Africa stated that it was her understanding that the approach would still lead to a comparison to the county median distribution.

Chair Edney clarified Ms. Africa's remarks:

- Staff would have to utilize local median income as a comparison to county median income.
- An allowance would have to be made for what appears to be a nine-thousand unit shortfall.

Staff could use the city numbers in comparison to the county numbers but the number would have to be modified to make up for any potential shortfall.

Joseph Carreras, SCAG, stated that he wanted to emphasize two considerations in trying to develop some options for the subcommittee to evaluate in relating housing cost to the improved distribution of housing across the region. This can be achieved by either improving housing availability or improving housing affordability. Staff recommendations are grouped under two categories: 1) housing stock approaches and, 2) affordability.

The simplest approach would be to assign a specific percentage of housing that the subcommittee would allocate back to communities with the highest housing costs, in an attempt to try to produce more housing in those areas where cost have gone up to very high levels. Adding additional units would help moderate those cost levels and bring them into alignment with other communities in the region as a whole.

The second approach is to assign more housing to higher cost communities who have a vacancy rate differential approach. Staff has done some analysis where there is a high correlation between low vacancies and high housing cost. If more housing stock can be added to a community it would help in moderating housing cost levels.

Mr. Carreras clarified for the subcommittee that the two approaches could be looked at in two ways. For example in the 1990's, a million units were built in Southern California but it was not enough. To identify the deficit, the fifty vacancy health market approach would be used to do this. In terms of construction need associated with household growth, staff is projecting a 24% change. This would be the ideal number of vacant units to attach to the household growth; there would not be a shortfall.

Councilmember White, Riverside County, inquired whether this would equate to an average for all counties. Mr. Carreras explained what staff would identify an ideal vacancy rate for retro housing as well as home ownership housing and depending upon the mix of those types of housing in a community, this would determine what would be the health level of production that would be needed.

Staff will provide a more detailed analysis as soon as SCAG is given direction by the subcommittee as to how they would like to proceed.

Mr. Carreras stated that a third option would be the local medium income. This would promote an approach to the fair share diversity goals in communities that reflect the concept on 'house your own', which means creating new jobs within a county and to look at each community in terms of income groups and define the diversity targets. This approach tends to focus construction activity in the middle income housing level. This approach needs more work and evaluation as previously discussed.

Councilmember Mary Ann Krause, Ventura County, remarked that she was having trouble understanding the benefit of using your own cities median income especially when it is talking about a housing marketing that is regional in nature. While there may be a very minor benefit when using this income, it appears that it is not allowing proper movement between communities and not going to necessarily take into account job locations.

Mr. Carreras responded that it was more for the goal setting process. This option has a positive outcome of providing more diversity.

Chair Edney opened the floor to public comments.

Bill Tremble, SGVCOG, spoke about vacancy and prices relationships using Rosemead and Beverly Hills as examples. The correlation between vacancy and price does not exist and implementing such would, in fact, create severe inequities. Mr. Tremble felt that the staff report did not provide correlation and recommended that the committee not take action on vacancy and price.

Ty Schulling, SBCOG, stated that he felt correlation does indeed exist, citing his opinion that confusion about vacancy rates and median incomes is a problem. Mr. Schulling spoke in favor of correlation between vacancy and price. He felt it was an important tool to determining equity.

Tracy Sato, City of Anaheim, stated that she felt there anomalies in vacancy rate factors which will limit usefulness of vacancy and price correlation. Ms. Sato gave some examples of correlation in Orange County. Ms. Sato suggested that staff and the subcommittee use other factors in conjunction with vacancy such as location, desirability, etc., if vacancy/price correlation is used.

Rick Bishop, WRCOG, stated that agreed with Ty Schulling, SBCOG, and supports a vacancy factor in the methodology.

David Chantarangsu, City of Glendora, cited reasons why Glendora, as a higher income city, cannot meet or accept assignments of additional units.

Debra Chankin, GWCOG, asked where chart is in the agenda, attachment to item to 6.1, which refers to income and not vacancies. Hasan Ikhrata, SCAG, responded that the chart has been prepared subsequently and will be posted on SCAG's website. Ms. Chankin feels the subcommittee should be evaluating jobs/housing factors.

Ms. Africa, SCAG legal counsel, clarified the item and the subcommittees discussion explaining that the decision that was made was to have an adjustment, find more housing, to hide housing cost jurisdiction relative to lower cost jurisdictions.

[MOTION was made to adopt the combined options of #2 and #3 by making both an adjustment to housing supply and to housing demand perspective to address housing affordability and availability of goals. The MOTION was SECONDED and APPROVED 6-1. Councilmember Paul Nowatka, Los Angeles County, voted NO on the motion.

6.1.2 Reconsideration of Subcommittee September 28, 2006 Action Regarding Approval of a Policy Action for Market Demand.

Councilmember White, Riverside County, stated that if the subcommittee was now looking back to Agenda Item 6.1.2, he was the one that had asked for the reconsideration of the item and based upon what we have approved on Item 6.1.1 he would like to withdraw his request for reconsideration.

MOTION (White) was made to not reconsider Item 6.1.2, approval of a policy for the market demand factor.

Before going further, Chair Edney stated that he wanted to clarify to the subcommittee that the vacancy factor that was discussed in Item 6.1.1 was about a future vacancy factor, and included that in the process. The vacancy factor that was discussed originally at the last subcommittee meeting, which was not approved as part of the methodology, was a previous vacancy factor. Mr. Edney clarified that the subcommittee was not being inconsistent.

MOTION was further MOVED, SECONDED (Jasper), and UNANIMOUSLY APPROVED.

6.1.3 Deliberation on Diversity Policies for Fair Share Adjustments

Joe Carreras, SCAG, gave a presentation on Fair Share Housing Diversity Policy. Mr. Carreras defined fair share goals as; fair and equitable distribution of growth between cities and unincorporated areas, fair and equitable diversity of different income groups within a community.

A major issue with the policy is the goal shifts, the rate at which localities move to the county income distribution which is considered to be the equity frame work for housing diversity. Mr. Carreras presented a power point presentation which showed charts that reflected two extreme cases demonstrating how a very low income city and a very high income city might move toward the county income distribution. The numbers shown in the presentation are the targets for the future construction need. They start out with the local profile in terms of income mix and then move over time in terms of future construction need to be more like the County as a whole in terms of income base.

Plans & Programs Technical Advisory Committee (TAC)
October 16, 2006 - Special Meeting
Minutes

1.0 Call to Order and Introductions

Chair Doug Kim, LACMTA, called the meeting to order. Introductions were made. The TAC members conferred on scheduling concerns with respect to the regular monthly TAC meeting and the RHNA Subcommittee meeting both falling on Thursday morning (10/19). There was also some discussion regarding the goal of today's special meeting and the need to provide technical guidance to the RHNA Subcommittee with respect to RHNA methodology.

2.0 Public Comment Period

There were no comments.

3.0 Discussion Items

3.1 RHNA Vacancy Needs and Fair Share Issues

[Mr. Joe Carreras, SCAG, presented an explanation of the proposed vacancy rate application method. Mr. Carreras prefaced his presentation by noting that the RHNA Subcommittee on last Thursday (Oct.12) had decided to not recommend the application of a vacancy adjustment to the existing housing stock. Mr. Carreras explained in some detail, a distinction between a *needs assessment* and a *pure forecast*. A pure forecast would entail using *total vacancy rates*, whereas in a needs assessment, the focus would just be on *effective vacancy rates*. Effective vacancy rates would only include those units that are vacant and available for sale or rent.

In addressing the question of what might constitute a healthy housing market, Mr. Carreras referred to a letter from the state HCD written to SCAG in May 2005. The letter expressed what the state felt would be the appropriate vacancy rate for the SCAG Region. The state had presumed weighted average (ownership - rental units) vacancy rates of 3.5%¹ for the low scenario and 4.2% for the high. Mr. Carreras stated that SCAG had also proposed using the 2000 Census vacancy level of 2.7% for the Region as yet another option to consider.

TAC members raised some technical questions at this point about the implications of using various vacancy rate percentages. Mr. Carreras commented on the potential applications of using percentage adjustments on communities with low vacancy rates and high overcrowding, or various other communities with unique housing market situations.

Mr. Bill Trimble, City of Pasadena, asked whether or not SCAG favored the application of different vacancy rates for different sub-regions. Mr. Carreras replied by stating that it was an option and not a staff recommendation at this point. Mr. Trimble noted that there were numerous anomalies that may still need to be discussed.

¹ Combined vacancy rate of 3.5% (the average of 4.4% rental and 2.5% ownership units)

Plans & Programs Technical Advisory Committee (TAC)
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Ms. Gail Shiimoto-Lohr, OCCOG, asked whether or not SCAG and HCD both used the effective vacancy rate instead of total vacancy in assessing regional housing needs. Mr. Carreras reaffirmed that SCAG and HCD both use effective vacancy rate and that it is the more appropriate factor to use in construction needs assessments.

Mr. Bill Trimble commented that local jurisdiction general plan housing elements require that existing historical needs be addressed whereas the proposed needs assessment reflects future need. Mr. Trimble asked if SCAG's position is that existing need should also be reflected in the RHNA process by applying a vacancy adjustment. Staff reminded the committee that the RHNA Subcommittee had agreed to not include an existing housing stock vacancy adjustment in this next RHNA.

TAC members continued with some discussion on the existence of anomalies and ways to address them. The TAC requested that staff clarify/summarize the available options. Mr. Carreras stated that additional adjustment options were available for consideration for unique housing market areas such as Southeast L.A.

SCAG staff commented that absent direction from TAC on an agreeable vacancy rate, the staff recommendation would be to follow the HCD guideline of using the 3.5% weighted average across the board for all local jurisdictions regionwide. TAC members expressed some concern with using a standardized adjustment for all jurisdictions.

Ms. Deborah Chankin, Gateway Cities COG, asked how the staff recommended application would advance the expressed policy goal of incorporating the housing cost factor into the RHNA. Mr. Frank Wen, SCAG, replied that for those communities that have a vacancy rate that is relatively lower than the ideal rate, it would indicate that there is a shortage. This may be a result of a community having a disproportionate concentration of low and very low income housing in which case, the positive impact would be to increase affordability by way of reduced housing costs. For those communities with relatively high vacancy rates, the effect would be to relieve them from having to continue with existing rates.

TAC members reengaged in discussion regarding the relationship between existing vacancy characteristics for local jurisdictions and vacancy rate adjustments for being applied only toward future growth. Staff reiterated that the direction from the RHNA Subcommittee was to exclude an existing vacancy rate adjustment in the needs assessment methodology.

Ms. Chankin commented that staff has not presented enough options in dealing with the RHNA Subcommittee policy goals, either in terms of the housing cost issue or the jobs-housing balance issue in a more general sense. Mr. Schuiling commented that there was a lack of integration between the housing forecast and transportation or air quality implications and specifically in regard to jobs-housing impacts. TAC members commented that there seemed to have been a lack of opportunity to discuss broader policy considerations in coordination with the RHNA process. TAC

Plans & Programs Technical Advisory Committee (TAC)
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Chair noted that the committee would have about a month before specific housing allocations would be finalized which would allow members to continue with broader policy discussions at a later time if they so chose.

Mr. Bill Trimble reiterated his earlier position that should the staff choose to go forward with the recommendation to apply an across the board approach without regard to lower income communities with low vacancy rates, those lower income communities would be disproportionately impacted by the eventual allocations.

TAC members discussed the possibility of being able to deliver an alternative to staff's recommendation. There was some discussion that more data would need to be presented to the TAC from staff in order to facilitate any development of alternative methodologies.

Ms. Lynn Harris informed the TAC that there would be opportunities later in the process to try and address any identified anomalies but that it should come at a point in the process where an assessment methodology has been determined and tentative allocations have been generated. Ms. Harris stated that staff's intent was to try and extend the window of opportunity for further discussions beyond the three to four week timeframe between now and November.

Mr. Doug Kim asked committee members whether or not they would like to extend the meeting to continue discussions. Several TAC members and staff agreed to participate in continued discussions. The Chair dismissed himself and requested Mr. Ty Schuiling to chair the remaining portion of the meeting. The committee also agreed to ratify on Thursday, any decisions made during the extended session.

TAC members raised another issue in respect to the application of the adjustment to rental units. Mr. Frank Wen stated that if a correlation analysis between rental units and affordability were to be done, it would probably result in a similar policy goal that would call for increasing vacancy rates. Staff reiterated that it was open to a TAC recommended ideal vacancy rate specific to rental units to better carry over the housing tenure characteristics of local jurisdictions.

Mr. Joe Carreras summarized what he felt represented the two most significant categories of anomalies. The first was a scenario of low income communities whose residents have responded to costs by overcrowding and overpaying and thus creating unusually lower vacancy rates. The second anomaly can be represented by high income cities with high vacancy rates and are challenged by absorption problems. For such cities, there appears to be no real burden on the community over time as the market should stabilize. But in the process, these cities have been able to take credit for vacancies in effect being relieved of their market and affordability needs. Mr. Carreras went on to explain that these were the scenarios or anomalies in which existing vacancy conditions really become pertinent to the discussion at hand. Mr. Carreras suggested that for those impacted² communities that currently have a

² Local jurisdiction housing distribution shows its percentage of low + very low income households is greater than the regional percentage.

Minutes

larger percentage of lower income units relative to the Region, they should not be required to apply the regional vacancy rate adjustment, instead just applying their current rate. Another option presented by Mr. Carreras was to only allow the credit of market rate units to the assessed need numbers, in turn requiring all jurisdictions to meet their adjusted share of affordable units. Should the regional total fall short by a certain number of units with the application of these types of secondary adjustments, Mr. Carreras contended that the equity benefits would seem to outweigh the numerical discrepancy.

TAC members requested some explanation from staff in regard to the integrated forecast and the relationship between RHNA and the RTP. There were some questions as to how policies that impact the jobs-housing balance would affect the transportation model. Staff responded by explaining that such policies may require a shifting of housing units across jurisdictional boundaries which may in turn affect the growth forecast.

[The TAC came to a consensus on a general methodological framework where one single ideal vacancy rate adjustment would be applied across the board for all local jurisdictions with exceptions for identified anomalies relative to the Region. The TAC agreed requested that staff provide an outline of the adjustment strategy for the low-income, low vacancy and high-income, high vacancy anomalies. Staff received direction to return Thursday morning with additional information using standard deviation calculation to treat the anomalies. County medians would be used as the guideline for determining percentages of low + very low income households for local jurisdictions.

4.0 Adjournment

The next regular meeting was announced as 9 a.m. October 19, 2006. The meeting was adjourned.

jurisdictions if you take the 21.4% - 14.9% and 10% get approximately another 1% instead of 21.4% they get 22%. Utilizing 110% and using county median as basis and not further analyzing local median option.

Chair Edney raised concern with utilizing county median instead of city median because within counties there is a large disparity in different cities.

Chair Edney called a brief recess at 12:55 p.m.

The meeting resumed at 1:00 p.m.

It was MOVED (Hon. Larry McCallon), SECONDED (Hon. Charles White) to, in terms of fair share adjustment, to go to 110% adjustments with direction, with further analysis by staff which will be discussed at the CEHD meeting, using the county-wide distribution as the base. The motion carried 4-2 by the following roll call vote: Riverside – AYE, Orange – AYE, Ventura – NO, Los Angeles – NO, San Bernardino – AYE, Imperial – AYE.

6.1.2 Recommendations for Policy Guidance to Prepare the RHNA Methodology and the Regional Needs Allocation Plan

Lynn Harris reported that this report starts off with identifying those policy factors that the committee was asked to work on, Farm workers Housing Needs, The Loss of At Risk Low Income Units, Housing Cost Factors, Housing Demand Factors, and the Fair Share Question, and Policies to Mitigate Over concentration of Low Income Households.

The report includes the summary of the committee's work over their past 4 meetings, including today's actions. If this report is approved by the committee, it will be provided to the CEHD, including a further summary report indicating these are the recommendations.

Lynn Harris reminded the group that there was discussion of utilizing the 2.7% census based housing rate for all housing types. This group asked that we go to the TAC to ask their opinion of the matter. The TAC reported consensus that they recommend we utilize a 3.5% vacancy rate for all jurisdictions but that it be broken down by renter and owner status rather than across the board.

It was MOVED (Hon. Larry McCallon), SECONDED (Hon. Charles White) to approve the TAC recommendation of 3.5% vacancy rate. The motion carried UNANIMOUSLY.

**COMMUNITY, ECONOMIC, & HUMAN DEVELOPMENT COMMITTEE
of the
SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS**

November 2, 2006

Minutes

Supervisor Burke, SCAG President, stated, as a point of clarification, that she understood that OCCOG did vote and the information was relayed to the Regional Council and to the Executive Committee, and that she did make the appointment of Mr. Herzog in September.

Chair Edney thanked the Supervisor and apologized to Mr. Herzog for the misunderstanding.

Councilmember McCullough wanted a restatement of the motion and asked about the amendment to the motion.

Chair Edney stated the motion is to approve the RHNA Subcommittee policy recommendations regarding the RHNA methodology and direct staff to prepare for the Regional Council's consideration the methodology and the draft regional housing need allocation plan upon completion of the upcoming regional public hearing and subregional workshops. Chair Edney stated that as the maker of the motion he did not wish to amend his motion.

Members then voted on the call for question which was approved by a majority vote.

[Action: It was moved by Chair Edney and seconded by Councilmember Jasper that the CEHD approve the RHNA Subcommittee policy recommendations regarding the RHNA methodology and direct staff to prepare for the Regional Council consideration of the methodology and the draft regional housing need allocation plan upon completion of the upcoming regional public hearing and subregional workshops. The motion passed with a vote of 18 (yes) to 6 (no).

Chair Edney turned back the meeting to the CEHD Chair Bowlen.

5.3 RHNA Pilot Legislation

Karen Tachiki, Chief Counsel, presented the RHNA Pilot Legislation, the latest draft of language that is being circulated among the stakeholders that participated at the end of the session in late August. Ms. Tachiki stated that the language in the attachment is basically language that was prepared by representatives of the League of California Cities, with some changes by staff. Staff believes the